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PROSPECTS

## Making Health Care the Engine That Drives the Economy

By GINA KOLATA

Angus Deaton, an economist at [Princeton](#), had a hip replacement last year. And while he was happy with the outcome, he wondered how much it had cost.

He got a few answers. His hospital room was \$10,000 a day. "Telephone and television were extra," he said.

As for the [total cost](#), there were so many charges associated with one service after another — [anesthesia](#), pain management, [physical therapy](#), the surgery itself — that he was never able to figure out how much each of them cost. "Maybe if I devoted my life to this for six months I could find out," Dr. Deaton said. "The price that is paid is the price an insurer negotiates, and that is kept in a vault somewhere."

All he knows for sure is that insurers say they pay, on average, \$50,000 for a hip replacement.

Dr. Deaton's story is the sort that makes people cringe. The United States already spends nearly 16 percent of its gross domestic product on health care, and it is almost impossible to know where all that money goes. Projections are that health care will take up even more of the G.D.P. as the population ages and as more expensive drugs and medical devices are developed.

But a new economic approach to health care expenditures views costs in a very different light. Economists agree that huge increases are coming. But some say that may be just fine.

By 2030, predicts Robert W. Fogel, a Nobel laureate at the [University of Chicago](#) Graduate School of Business, about 25 percent of the G.D.P. will be spent on health care, making it "the driving force in the economy," just as railroads drove the economy at the start of the 20th century.

Unless the current system is changed, most health care costs will continue to be paid by insurance, especially Medicare, which means that the taxpayers will foot the bill. But Dr. Fogel

says he is not alarmed. Americans can afford it, he says, because the nation is so rich.

“It takes so little of household income to satisfy expenditures on food, clothing and shelter,” he explains. “At the end of the 19th century, food, clothing and shelter accounted for 80 percent of the family budget. Today it’s about a third.”

Other economists agree.

“We have to spend our money on something,” says Robert E. Hall, a [Stanford University](#) economist.

In a [paper](#) published in The Quarterly Journal of Economics, Dr. Hall and Charles I. Jones of the [University of California](#), Berkeley, write: “As we get older and richer, which is more valuable: a third car, yet another television, more clothing — or an extra year of life?”

David Cutler, an economist at [Harvard](#), calculated the value of extra spending on medicine. “Take a typical person aged 45,” he said. “They will spend \$30,000 more over their lifetime caring for cardiovascular disease than they would have spent in 1950. And they will live maybe three more years because of it.”

He added, “Are you willing to do that? Yes, it costs a lot, but we’re rich enough where the alternative use of the money isn’t as valuable.” Still, Victor R. Fuchs, also an economist at Stanford, notes that buying health care is fundamentally different from buying a television or a car.

“Most of it involves transfers from the young to the old,” he said. “Down the road, most medical care will be for people over age 65, and most of the payments will be from taxes on younger people.”

Dr. Fuchs calls it the restaurant check problem.

“You go out to a restaurant with a bunch of friends and you sort of understand that you will split the check,” he said. “The waiter comes along and says, ‘The lobster looks very good, and how about a soufflé for dessert?’ The restaurant check balloons, but you are not so careful because you figure everyone is splitting it.

“That’s the way medical care gets paid for,” he said.

Dr. Fuchs added, “We want to spend our money on the things that will bring the most value for the dollar. When we are spending collective money as we are in health care, then it becomes

much more difficult.”

The [issue](#), he says, is not how much is being spent but whether spending more is the answer. Are those extra dollars buying marked improvements in health or are they making any difference?

That, Dr. Deaton said, was the point of his exercise in trying to find out the cost of his hip replacement: “Is it worth spending all this money on a hip replacement?”

In London, he said, a hip replacement costs £5,000, or about \$9,500.

“Don’t you think people would prefer to have it for £5,000?” Dr. Deaton said. “It is probably true that if we spent twice as much money on health care we’d be better off. But half the money we spend is wasted.”

That, Dr. Hall pointed out, is an important issue. “We all know that especially in Medicare, where more and more of the spending is going to occur, there isn’t anybody who has responsibility for making sure the money gets spent well,” he said. “Some huge improvements will have to be made as the consequences of that waste get greater.”

Still, the wasted money is, in a sense, a separate discussion, he said.

The real questions for the future of medical spending, he said, are: “Does it make sense in terms of how we value different things? What do people think a life is worth? And what do you get?”

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